



ANGOLA FLASH-NOTE

## An apt metaphor for the GINI coefficient

*In the Angolan capital, these appear to be at once **the worst of times and the best of times.***

1) The **exchequer is reeling** under the combined onslaught of the country's diminished oil revenues and the spectacularly overvalued exchange rate<sup>1</sup>. These fiscal woes have given rise to a huge build-up of domestic **payment arrears - estimated at close to 10% of GDP**<sup>2</sup> - precipitating a **banking crisis** that has now forced the authorities to announce a "bad bank" vehicle, *Recredit*<sup>3</sup>, aimed at recapitalizing the banking sector.

2) And yet, it is against this lugubrious backdrop that the National Assembly has placed **a purchase order that would have made their Nigerian counterparts blush**. Signed on April 25th, but only gazetted on May 24<sup>th</sup>, the order is for the **purchase of 250 Lexus V-8 SUVs at a total cost of USD 78 million**, which implies a **unit price of USD 312,000**<sup>4</sup>.

3) Not to be outdone, President **dos Santos' younger son Danilo made his own pitch for notoriety last week** – in the improbable context of a charity event<sup>5</sup> held in the context of the Cannes film festival on the Côte d'Azur. Here, the 25-year old<sup>6</sup> placed **the winning, €500,000 bid in the auction for a Frank Muller time-piece**<sup>7</sup> – presumably putting a minor dent in his spending allowance for the month.

4) Grotesque as it is, the dichotomy between these two versions of reality stands as **the perfect metaphor for Angola's GINI coefficient of 42.7**. Although classified as **an upper middle-income economy**<sup>8</sup>, the Republic's human development index (**HDI**) score for 2015<sup>9</sup> places it at **#150** on the UNDP's scale of 188.

Did someone say, *'A luta continua ...'*?

<sup>1</sup> The Kwanza is even more out of line with fundamentals than the Naira.

<sup>2</sup> See research note, *"Coming clean on the fiscal arrears - yet another red flag"*, Feb. 24, 2017.

<sup>3</sup> The entity was actually set up in Jul. 2016, to assume the non-performing assets of state-owned Banco de Poupança e Crédito. Recredit's mandate has now been extended to cover all lenders in the financial system. See discussion in the Annexe overleaf.

<sup>4</sup> I.e. the LX 570 whose top-of-the-line model carries an MRSP of USD 98,000.

<sup>5</sup> The auction was to benefit the Foundation for AIDS Research, amfAR.

<sup>6</sup> Whose LinkedIn profile identifies him as a student at the American International University in Richmond, England.

<sup>7</sup> The scandal is unlikely to amuse his father who is finally due back in Luanda this evening after an unscheduled, 29-day absence. Although both the government and the first family have doggedly maintained that the President has been enjoying a well-earned , it is no longer a secret that he left for Barcelona on May 1<sup>st</sup>, not as a tourist, but as a n airlifted patient.

<sup>8</sup> Based on Angola's per capita GDP of USD 6,800.

<sup>9</sup> This was in 2015, the latest year for which the relevant data has been published. Since then, Angola's ranking has almost certainly dropped even lower, based on the economy's descent into stagflation in 2016.

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## Annexe – Recredit Gestão de Activos, Sociedade Unipessoal, S.A.

- 1) The stated mission of Recredit is to “*unburden the banking system of its troubled assets*”, thereby “*enabling the institutions to resume their role financing economic activity.*” However, no information has been forthcoming as to the amount of firepower available to the entity.
- 2) The real catch is that the **lion’s share of the banking sector’s non-performing assets consist of loans to the state-owned sector**, most notably the erstwhile cash-cow, Sonangol. As such, the Recredit initiative would seem to imply **a vertiginous degree of circularity**, with the State purporting to bail out the banks to which it is actually in hock.
- 3) It is worth recalling here that three months ago, the Government announced a ‘plan’ – with more fanfare than specifics - **to settle contractor arrears** that we estimate at ca. Kz 1,575 billion. The one detail provided at the time was that **claims for amounts exceeding Kz 500 million would receive only 30% of said amount in cash**, with the balance in the form of ... government paper.
- 4) In our view the mechanism has two major flaws :
  - the prospective value of such paper (coupon as yet unspecified) in an environment with **real-interest rates running above -10%**; and,
  - the **inability of the beleaguered banking system to discount the paper** and so provide holders with liquidity.
- 5) Our assessment is that the Recredit ‘solution’ will boil down to the mere substitution of a notionally tradable, but totally illiquid, government instrument for bank claims upon state-owned entities. In other words, **new paper for old!**

To encourage take-up, the authorities may well declare the new instrument **eligible for inclusion as part of the banks’ reserves**. But, this *ersatz* recapitalization will **do nothing to ease the acute shortage of liquidity** that is crippling the banking system.

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